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The World Bank's Innovation Market

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The atrium at the World Bank's headquarters soars 12 stories above H Street NW in downtown Washington, DC. Ordinarily, a walker's footsteps echo through it, and the sheer vastness of the hall can be overwhelming. But on February 9, 2000, the entire area crackled with excitement. Crowding in and around 270 cramped booths were more than 700 people, each intent on pitching an idea for alleviating poverty. This polyglot assembly was united in its passion for improving the lot of the billions of people in this world who live in poverty. And the World Bank—the epitome to many of a slow, cumbersome bureaucracy—was eager to listen. What's more, the Bank was ready to fund genuinely new approaches to solving one of the world's most intractable problems. The event was, many felt, nothing short of a miracle.

At the culmination of this, the Bank's first Development Marketplace, 44 teams from around the world received innovation grants. As the winners were announced, a South African team broke into a celebratory dance. Their chanting rang through the atrium, imparting to the event a spirit quite unlike that of any other World Bank meeting. As one veteran staffer noted, "I've never been so excited about what we're doing. It all felt so *worth* it."

The climax of three years of plotting and planning by a small team from the World Bank's corporate strategy unit, the Development Marketplace—and subsequent related efforts—gave the international funding agency a new way to advance the cause of economic prosperity. The program emphasized rapid and repeated experimentation over careful but ponderous decision making, and small infusions of cash over multimillion-dollar investments. And the Development Marketplace gave people whose voices were usually ignored an opportunity to put forward their ideas and compete for funding.

In short, the Development Marketplace has laid to rest the broadly held suspicion that large organizations are incapable of dramatic, grassroots innovation. Not only did the program lead to the funding of many radically new ways to combat poverty—for instance, vaccines for tropical diseases and insurance for post disaster construction—but it also taught the World Bank how to unleash the remarkable potential of its people and its clients.

Planting Seeds of Change

Poverty is a systemic problem. It has hundreds of mutually reinforcing causes. No central authority, top-heavy investment committee, or cadre of policy makers—however brilliant—will ever be able to comprehensively address poverty's causes or fully redress its innumerable consequences. That insight spurred World Bank staffers Dennis Whittle and Mari Kuraishi to take an entrepreneurial approach to the challenge of reducing global poverty. It was apparent to them both that the Bank's primary "products"—improved economic policy and megaloans for large-scale development projects—often failed to get at poverty's deeper causes.

Whittle held a master's degree in development economics, but he had always been baffled by the way the Bank worked. "Most people just sort of locked on to the Bank's established business process: We do studies, process documents, and make loans," he recalls. Whittle didn't believe the established processes would, by themselves, produce the kind of changes that poor countries needed.

Kuraishi, meanwhile, was in some respects a second-class citizen at the Bank: She held a master's degree in Russian studies and all but the dissertation for a doctorate in political science, but economists and finance people largely ran the Bank. Kuraishi, however, believed that economists understood only part of the poverty problem. They were not naturally predisposed to delve into its social and cultural roots. Nor did they know how to begin development in poor nations that lacked the necessary laws and basic business practices.

In 1992, the director of the Bank's Russia program teamed Kuraishi and Whittle and asked them to develop a lending strategy that would improve Russia's shoddy, energy inefficient apartments. Kuraishi's sensitivity to the roadblocks that can come up when policy makers and businesspeople attempt any kind of political or economic transformation in the former Soviet Union was critical to the success of the program that emerged. Whittle and Kuraishi worked closely with progressive government officials to create institutional arrangements that ultimately channeled hundreds of millions of dollars into weatherproofing and making other energy-efficiency improvements to buildings and apartments that would otherwise have been uninhabitable and unaffordable. Whittle, Kuraishi, and their local allies developed plans that guaranteed lenders would be repaid when they made loans to improve Russia's housing stock. The Bank recognized this innovative achievement, and by 1997, Kuraishi was acting chief of the group managing the Bank's $5 billion portfolio of Russian loans.

Meanwhile, investment banker James D. Wolfensohn had been named chair of the World Bank. He wanted the organization to develop new strategies and ways of working that would help it better fight poverty. So under Wolfensohn's tenure, Whittle was asked to lead a new-products initiative that soon fell under the purview of the corporate strategy unit. Word of the program spread quickly, and Whittle found himself flooded with e-mails from people with product ideas. More ideas poured out of the discussion sessions Whittle was leading with senior Bank executives. Before long, he realized that the Bank, like most large organizations, had no efficient process for sorting through a cascade of new ideas. No one at

the top could properly evaluate more than a tiny fraction of the proposals. "It was obvious that there were a lot of bright, creative people around, and we weren't tapping them in the right way," recalls Marcus Williams, deputy director of Whittle's team. Moreover, as months went by and no clear plan for new products emerged, Bank executives began to hint that they could make better use of the team's $5 million budget. The new-products initiative was being considered a failure before it had even gotten started. At this point, Whittle entreated Kuraishi for help, and she joined the team in early 1998.

One of Kuraishi's first steps was to schedule a brainstorming session—not to generate more product ideas but to devise new ways of evaluating, prioritizing, and funding the ideas that had already been collected. She and Whittle convened an all-day meeting of strategy staffers and personal friends from other parts of the Bank. The group talked through the morning without making much headway. But in the afternoon, there was a breakthrough when someone said, "It's like a market. You have people with ideas over here and people who are looking for good ideas to fund over there, and you need a mechanism to bring them together." The group immediately warmed to the market metaphor. "How," the members asked, "could we create marketlike structures and incentives that would cause people with ideas to behave like sellers and people with development money to act less like bureaucrats, looking for ironclad guarantees of success, and more like venture capitalists who minimize risk by spreading small investments over a broad portfolio of start-ups?"

Suddenly the small conference room was abuzz with provocative analogies and insights. In a market for goods and services, buyers and sellers find one another without much intervening bureaucracy. Surely it must be possible to build a market for antipoverty ideas where innovators and funding sources can network—in a way that the Bank's formal, top-down review process discourages. There had to be some way to truncate the Bank's standard review processes, which often stretch to a year or more. Funders should be able to make small commitments quickly, with the goal of exploring nascent strategies. The World

Bank should develop an ethos of rapid and repeated experimentation, and it should establish a way to make seed investments in the tens of thousands of dollars, rather than in the tens of millions of dollars more typical of Bank-financed projects.

Within three months of that meeting, the new-products team announced that it would use $3 million of its $5 million budget for relatively small awards to be distributed at an Innovation Marketplace in the Bank's atrium in May 1998. Team members knew they would fund some ideas that weren't fully developed and that would ultimately fail. But they believed an open process that helped many innovations take root would produce more breakthrough ideas in the long run than would a centralized process of resource allocation. They hoped that the challenge of presenting proposals in a competitive marketplace would motivate would-be entrepreneurs to refine any half-baked ideas. And because all the entries could be easily compared and contrasted at the Innovation Marketplace, the forum would be an efficient way to sift through the backlog of new-product ideas.

Gathering Support

To generate excitement and to spur even more new thinking, team members blitzed the rest of the Bank's staff with e-mails and plastered signs throughout the Bank's buildings and parking garages. They asked the heads of key units if new-products team members could speak at their staff meetings. "We made pests of ourselves really," Williams says. "We bullied the [unit heads] to get them to encourage their people to come forward with their ideas. We said, 'You've got to find people. We know they're there.'"

But it wasn't long before the campaign encountered strong opposition. Some senior executives were appalled by the idea that the Bank would speculate on new and untested ideas. The World Bank had never before distributed funds without an exhaustive review of each project. No group, the skeptics insisted, had the right to spend money without following the Bank's well-established resource allocation process. The young team members

supporting the project had neither the clout to win a dispute with their more senior managers nor the authority to go over their heads. Suddenly, it appeared that the Innovation Marketplace would be canceled.

Luckily, the new-products team had picked up an unexpected ally in John H. McArthur, a former dean of the Harvard Business School and an old friend and classmate of Wolfensohn. When Wolfensohn took the chief executive's job, he had asked McArthur to get to know people in the Bank and to keep him posted on what was happening at lower levels. McArthur had learned about plans for the Innovation Market-place and had discussed the project with Wolfensohn. He was also aware of the impasse the naysayers had produced, and he suggested that Wolfensohn do something about it.

Looking back, Wolfensohn says, it was easy to understand the skepticism: "You're going to be distributing $3 million right in the atrium. There was already a bureaucratic practice that every single penny would go through an approval process. So the notion of speculating on ideas that were not fully formed struck some people as absolutely unacceptable." But Wolfensohn also believed that the Bank needed to start taking more risks, so he met with the skeptics, voiced his strong support for the initiative, and quickly got their agreement to go ahead.

Calling All Innovators

Only Bank employees were invited to participate in the first marketplace, and the turnout was high. One hundred twenty-one teams set up booths in the atrium, armed with simple posters, radical ideas, and lots of enthusiasm.

The panel of judges assembled by the new-products team included widely admired leaders from nonprofits such as Oxfam International and World Vision; executives of private organizations such as ABB and Battelle; and a few senior World Bank executives. The judges were able to consider dozens of different proposals in a matter of hours, and at the end of the day, they divided the $3 million into 11 grants.

Though certainly the most tangible, the cash grants were not the only positive outcome. Participants also competed for People's Choice awards, which were voted on by all those who attended the marketplace. Some 2,000 attendees—mostly Bank staffers but also people who worked in nearby development offices—picked up colored stickers at the entrance of the atrium to vote for their favorite projects. The booths that received the most stickers

…iate funding, but …event boosted their chances of gaining support in the future, from donors inside and outside the Bank. Participants also met hundreds of visitors, some of whom would eventually become collaborators and donors. Perhaps most important, the marketplace became a catalyst for further innovation. As people talked with one another about their proposals, ideas mutated and expanded, sparking even more experimental notions. "People just responded to it," Williams recalls. "They said, 'It was so great to have a day when I could put out this idea that's been in my head for years and talk about it with senior people in the Bank.'"

According to Amie Batson, a World Bank employee who won a grant for what would become a major initiative on vaccines for underresearched tropical diseases, "The Innovation Marketplace suddenly made it OK to say, 'Here's a really big problem. We don't know the answer, and we have to do something to figure it out.'" It gave staffers permission to look beyond established hierarchies and practices.

Setting the Right Conditions for Innovation

Increase the surface area of experimentation. Ideas tend to evolve and expand through conversations, so the more people you can get involved, the more high-quality ideas you will generate.

Establish a process for collecting and evaluating ideas. The World Bank's Development Marketplace is an ideal forum

In their booth, Batson and her group hung homemade posters—reminiscent of a seventh grade science fair—that conveyed a powerful message: "Millions of people are dying." "There is almost no investment in vaccines. Why not? Market failure." Batson was astonished by the enthusiasm she encountered. "People responded to this issue of market failure and the idea that the Bank

for assessing the merits of various proposals to ensure that the most worthy ideas receive funding.

Support projects that don't need huge investments to succeed. All the proposals that were awarded funding at the marketplaces had one thing in common: They needed only a modest infusion of cash to get started. Investing thousands of dollars rather than millions let the World Bank fund many unproven but promising projects, which could ultimately produce more breakthrough ideas than a centralized process of resource allocation.

Don't let traditional executives control the budget. Many executives are so busy protecting their own departments that they're unwilling to risk "squandering" even small amounts of resources on new and untested projects.

could do something to correct that," she says. Batson's team received $265,000. It used some of the money to pay for the services of people in the Bank's legal and finance groups and some to study how the pharmaceutical industry develops vaccines for tropical diseases. And because of the group's participation in the marketplace, hundreds of people learned about the vaccine project. Senior executives at the Bank were willing to make time to speak with the winner of a major innovation competition when, previously, they would have turned down meeting requests from unknown junior staff members.

This network played a key role in the development of the Global Alliance for Vaccines and Immunization. Working with the Bill & Melinda Gates Foundation and other funding agencies, the alliance has increased the use of existing vaccines. Not only that, the combination of increased funding and better insight into the workings of the pharmaceutical industry has enabled Batson's group to promote vaccine development in a way that maximizes the impact of relatively small investments—by addressing the diseases that do the greatest amount of damage in poor, tropical countries. Currently, a vaccine for pneumococcal pneumonia and related diseases is being tested in Africa. And two drug companies have expressed interest in a product to be created just for Africa that would control forms of meningitis that ravage the continent.

Another winning project at the 1998 marketplace proposed bringing free-market discipline to disaster relief. Over the years, the Bank has lent more than $30 billion to developing countries to help them rebuild after floods, earthquakes, and other natural disasters. But professionals involved in this lending know that disaster aid frequently finances poorly built structures that fall again in the next big storm or earthquake. In developed countries, lenders ensure quality construction by requiring builders to take out insurance against potential structural defects; the insurers in turn make certain that good construction methods are used. But in most developing countries, insurance companies don't understand the markets well enough to insure big projects.

Alcira Kreimer, a lending officer in the World Bank's infrastructure group, led a small team that proposed that the Bank work with insurance companies to devise methods of insuring major infrastructure projects in developing countries. The insurers would have to arrange private-sector reviews of construction quality. Kreimer's team's posters demonstrated the potential impact of this innovation. "If you compare Seattle's 2001 earthquake to the recent one in El Salvador, you'll see that in Seattle there was relatively little damage," she says. "But losses to infrastructure in the developing world every year are enormous. In Asia alone, it's $12 billion a year." To put that in perspective, the World Bank lends a total of $17 billion annually.

Kreimer's team received a mere $150,000, but that was enough to get started. The money paid for staff time that was devoted not to specific lending projects but to working with insurance companies and governments of developing countries on limiting risk through better-managed construction. As a result, large insurance companies committed to working in the developing world. In 2001, Mexico obtained a loan package from the World Bank and a group of private financial institutions totaling $658 million for the first group of projects to be insured in this way. (The World Bank's share was $404 million.) Similar initiatives are under way in Turkey, the Caribbean, and Central America.

Expanding the Scope of Innovation

By the end of the 1998 Innovation Marketplace, Wolfensohn was a confirmed supporter, and Whittle's team was ready to aim higher. For 2000, the event would be renamed the Development Marketplace (www.developmentmarketplace.org), and the forum would solicit ideas not only from within the Bank but from anyone, anywhere, With a viable idea for fighting poverty. It would be as if a corporation held an enormous innovation open house and invited its customers, partners, and shareholders to come forward with their boldest breakout ideas.

The new-products team now operated as though it were running a political campaign. Members covered the entire World Bank campus (six buildings in downtown DC) with publicity for the event. They used listservs to reach networks of universities, embassies, nongovernment organizations, international agencies, and media outlets around the world. Soon, fax machines were spitting out project proposals faster than they could be restocked with paper. Late-night pizza deliveries became a ritual. Overwhelmed by the sheer number of submissions—1,138—the group had to find a way to winnow down the pool of applicants. Since only 270 booths could fit in the Bank's atrium, members of the corporate strategy unit and others they had recruited from various parts of the World Bank selected proposals based on their clarity, credibility, and potential impact on the poverty problem. Many applicants with impressive ideas couldn't raise the funds to travel to Washington, so Whittle's team also scheduled teleconferences for some 52 proposal teams to present to the jury, often arranged for 4:30 am or 11:30 pm to accommodate groups from places such as Egypt, Uganda, and the Philippines. The sessions were videotaped so that all judges could see them. (As with the 1998 event, the judges included respected development experts from outside organizations as well as senior Bank executives.) Those who participated from afar did well in the judging—nine of 52 won start-up funds.

Because the Bank received so many high-quality proposals, its executives raised the amount of total award money from $3 million to $5 million. The judges distributed 43 grants in all, ranging from $29,000 to $380,000. Although the proposals tackled very different poverty-

related issues, they all had one thing in common—each needed only a modest infusion of cash to get started.

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For example, an American entrepreneur who imported the work of artisans from Latin America won funds to create an Artisans' Institute that would teach business skills to the craftspeople there. A entrepreneur from Zimbabwe had developed a low-tech process to produce a gel from agricultural rubbish—such as sugar cane waste—that could be used as fuel for cooking and heating, significantly cutting one of the biggest expenses for rural people in poor countries. He was awarded a grant to build a small plant. A World Bank project officer who had been working with officials in several Latin American countries to improve legal justice for indigenous peoples also submitted a proposal. He won money to train judges and their staffs in Guatemala about the culture, languages, and traditional approaches to dispute resolution of Indians descended from the ancient Maya.

And once again, even participants who didn't win immediate funding benefited. Take, for instance, Gheorghe Barbarosie, vice president of the National Farmers Federation of Moldova, who staffed one booth. A country just northeast of Romania, Moldova used to be part of the former Soviet Union. The people in the farmers' federation formerly toiled as members of communist collectives. Through privatization, each had received a deed to about three acres of land. Many didn't know what to do with this meager windfall. Barbarosie cautioned that it was not really fair even to call his federation members farmers—they had no idea how to manage their farms, and many were tempted to sell their deeds for the Moldovan equivalent of about $75.

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Barbarosie was struggling, and he looked it. He was strikingly thin, and his posters were hard to decipher. But he had innumerable ideas for improving the lives of Moldovan farmers. For example, the federation wanted to teach Moldovans to plant new crops such as lavender and to make crafts at home. With great difficulty, Barbarize had persuaded the Open Society Institute, a philanthropic organization, to pay for his air fare. He was seeking $85,000, which would be enough to fund his group's entire development program; $85,000 represents the annual income of roughly 200 Moldovans. Barbarosie didn't get a promise of World Bank funds at the marketplace, but he did meet people who could help him in the future. People from the Bank's environment program, for example, talked with him about how they might be able to fund the farmers' federation.

After the dramatic successes of winners from the 1998 marketplace and the clear triumph of the expanded 2000 version, Kuraishi and Whittle left the World Bank to pursue an even more ambitious market-based approach to development funding. Their latest project is called DevelopmentSpace (www.DevelopmentSpace.com), and its goal is to make it possible for innovators and donors to interact entirely over the Web—think of it as an on-line business-to-business market for policy and program development. DevelopmentSpace began matching projects with donors in February 2002.

The World Bank, meanwhile, continued its efforts to create efficient markets for innovation. The Development Marketplace team, led by Arshad Sayed, a former World Bank country officer, set its sights on spreading the program's global impact even further. At a brainstorming session, someone suggested that the group promote its events in client countries. The group targeted Thailand first, because government officials there were looking for a way to address the digital divide that was developing between a prosperous few urbanites and the poor rural masses. The Thailand Country Innovation Day was held in June 2001 and showcased 36 ideas for using information technology to improve the quality

of life in rural Thailand. Sponsors were recruited, and a regional knowledge-sharing forum was held at the same time, attracting participants from Thailand, Indonesia, the Philippines, and Vietnam. Fourteen teams won a total of $145,000.

Successful Country Innovation Days followed soon after in Peru and the Ukraine in 2001, and in Brazil, Guatemala, and Peru in 2002. Learning from these events, the marketplace team honed its processes for generating event publicity, selecting and judging projects, and implementing the proposals. It has published these processes in a guidebook, which "allows us to operate like a franchise," Sayed explains.

World Bank country officers and government officials in developing countries—two groups frequently characterized as being slow to change—have become fascinated with the possibilities offered by the Country Innovation Days, and demand for the events now far exceeds the marketplace team's ability to support them. The team is looking at staging Country Innovation Days in Indonesia, the Philippines, Vietnam, Ethiopia, Egypt, Morocco, and Mexico. A Central Asian Innovation Day is also being designed to bring together innovators from countries including Kazahkstan, Turkmenistan, Uzbekistan, and the Kyrgyz Republic.

The second full-scale Development Marketplace in January 2002 received more than twice as many proposals as the 2000 program did. A knowledge forum and training programs held during the event helped participants share their experiences, and virtually every group that made it to the Bank's atrium this time seemed to merit funding.

In response, the Bank set up new systems to provide for regular Bank funding of selected projects that did not win in the formal competition. For instance, managers of specialized World Bank programs met with the finalists to explain other sources of Bank and non-Bank financing. In addition, members of the Development Marketplace team guided nonwinners

to other agencies and funding alternatives. The World Bank is also working with the Harvard Kennedy School of Government to create a Web page on innovation where nonwinners and their projects will be listed.

Lessons Learned

The infectious excitement that characterized the World Bank's first Development Marketplace has grown with each subsequent event and has led to dramatic successes for both world development and the Bank itself. Even many of the Bank's internal skeptics are now willing to admit that "micro innovation" can produce "macro results." Beyond concrete achievements such as the program to promote postdisaster reconstruction insurance or the vaccination initiative, the marketplaces have helped to build a culture of collaboration. They are a highly visible sign of the Bank's commitment to the cause of development, and they have proven to be an effective vehicle for uniting a legion of otherwise isolated and frustrated innovators.

The Development Marketplaces won't by themselves eliminate global poverty, nor are they the complete solution to the challenge of fostering innovation at the World Bank. A series of high-profile events is not the same thing as a well-developed capability for innovation. Entrenched bureaucracy still stands in the way. For instance, some Development Marketplace grant winners were asked by the Bank's lawyers to sign bewilderingly complex contracts that included impossible restrictions on the use of the money—restrictions designed for multimillion-dollar infrastructure lending.

If the World Bank is going to make a sizable dent in the problem of poverty, it must make the marketplace for innovation more than a biannual extravaganza; it needs to be open 365 days a year. Ideas, once proven, must be widely propagated. Funding needs to be substantially increased. And innovators who have made a difference should become role models and mentors for others. Nevertheless, the success of the Development Marketplaces and Country Innovation Days offers hope both for the world's poor and for business leaders looking to tap into the ideas that reside beneath the hard crust of corporate dogma,

conformance, and bureaucracy. Other innovative efforts at the Bank—for instance, the agency's poverty reduction strategy papers aimed at building coherent self-help campaigns for developing countries—could ultimately turn out to be even more impactful than the marketplaces.

Solutions to big, messy problems—like global poverty or corporate growth—typically require two things. The first is a larger surface area of experimentation. Systemic problems are not solved by a few smart people (whether World Bank bureaucrats or corporate planners) thinking really, really deep thoughts about really, really important things. They are solved when a vibrant and competitive marketplace first tests and then confirms or disproves an array of possible approaches. Through its support of grassroots innovation around the world, the World Bank has been increasing the odds that new and effective approaches to economic development will emerge.

The second requirement is a loosening of the hold that tradition-bound decision makers have on resource allocation. In most organizations, resources flow to long-established departments or businesses. Each unit is defined by its scope (which customers or constituencies it serves) and by its approach (its operating model). A department is defined by what it does, yet it is also defined by what it doesn't do. And it is in this "doesn't do" space that breakthrough ideas are most likely to be found.

Unfortunately, most unit executives are unwilling to take responsibility for customers and approaches that lie outside their group's charter. Indeed, they are often quite willing to use all the powers of incumbency (pleading their case to top management, exploiting their hierarchical stature, leveraging external relationships) to ensure that even small amounts of resources are not "squandered" on untested approaches to innovation. Careful controls are required when large financial sums are at stake. But it is often small investments, like those made at the Development Marketplace, that can open the door for truly dramatic change. By protecting the Development Marketplace's budget from bureaucrats who would have been

happy to spend the funds buttressing their already substantial programs and projects, Wolfensohn helped correct what is typically a very unequal balance between two organizational forces—perpetuation of the past and championing for the future.

The World Bank's Development Marketplace offers a valuable example of how large organizations can make space for radical, low-cost (and therefore generally low-risk) innovations—even when they can't easily change the minds of those who favor perpetuation over innovation. Almost every large organization contains dozens of would-be innovators who are ready to pour their hearts into new and unconventional ideas that serve their institution's mission; all they need is half a chance.

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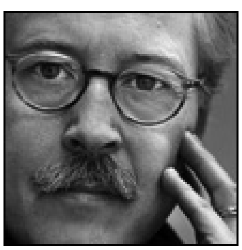

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